



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 15, 2006

TO: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **DEPARTMENT OF REGISTRAR-RECORDER/COUNTY CLERK
BUDGET AND TRUST FUND REVIEW**

We have completed an analysis of the Registrar-Recorder/County Clerk's (RR/CC or Department) actual financial performance compared to its budget for the last five fiscal years. We also evaluated the RR/CC's use of its special fee collections and trust funds, and the impact of the collections/trust funds on the Department's financial performance.

Background

The RR/CC collects fees for recording and providing copies of various documents (e.g., real estate documents, birth and death records, etc.). Some of the RR/CC collections are special fees permitted under the California Government Code to be used for specific purposes. For example, the RR/CC is authorized to charge \$1 per page as a Modernization fee, to support, maintain, improve and provide for the modernization of the County's system of recording documents.

Summary Findings

The RR/CC has operated within its budget, and expended less than its budgeted Net County Cost (NCC) for the five fiscal years we reviewed. However, we noted that the RR/CC sometimes uses its special fee collections and trust funds to offset other, unbudgeted costs, which makes it difficult to evaluate the Department's budgetary performance. Specifically, from July 2000 through June 2006, the RR/CC collected approximately \$132 million in special fees. However, the Department only used \$87

"To Enrich Lives Through Effective And Caring Service"

million of these collections. As a result, the RR/CC has accumulated approximately \$60 million in special fees in its trust accounts, and the Department does not currently prepare a long-term spending plan for the accumulated trust fund balances.

RR/CC management indicated that they use the special fee collections in the trust funds to fund unanticipated expenses, and as a safeguard against possible future fluctuations in the Department's budget. Specifically, RR/CC management told us they use the special document recording fees to pay for allowable Recorder expenditures, so that the Department can absorb the cost of unanticipated special elections, without a budget adjustment.

The RR/CC's practice of accumulating special collections in trust is not consistent with County fiscal policy, which requires that collections be transferred to revenue when they are earned, and when the nature of the funds is identified. In addition, the Department's use of special fees, that are restricted for Recorder purposes, to indirectly finance unanticipated mandated expenditures, such as special elections, should be more clearly disclosed in the RR/CC's budget.

To ensure proper accountability for the special fees and RR/CC expenditures, we recommend that the RR/CC revise its special fee accounting practices, by accounting for these special collections as a Special Revenue Fund. This change will require the Department to:

- Establish three separate Special Revenue Funds for the RR/CC's Modernization/Improvement, Micrographics and Vitals and Health Statistics special fee collections funds.
- Include each fund's collections, revenue transfers, expenditures, and balances in the annual County budget.
- Develop annual spending plans for the budgeted revenues and expenditures.

We also recommend that the Department work with the CAO and Auditor-Controller to develop procedures to ensure that special election-related revenue and expenditures are fully disclosed to the Board. In addition, we recommend that RR/CC management develop long-term spending plans for the accumulated special fee funds.

In our opinion, these changes will significantly improve the Department's annual budget document, visibility, oversight and accountability of the special fees the RR/CC collects from the public for document recording.

Details of these issues are in the Attachment to this report.

Review of Report

We discussed the results of our review with RR/CC and CAO management. The RR/CC's response (attached) indicates that they believe converting the special fee collection trust funds to Special Revenue Funds will reduce the Department's flexibility to pay for unanticipated special elections and County-sponsored ballot propositions. However, we believe that changing the trust funds to Special Revenue Funds is consistent with County fiscal policy, will improve accountability over the special fee collections, and will ensure that the use of those funds is more fully disclosed to the Board.

We thank RR/CC management and staff for their cooperation and assistance during our review. Please call if you have any questions, or your staff may contact Mike Pirolo at (626) 293-1110.

JTM:MMO:JLS:MP

Attachment

c: David E. Janssen, Chief Administrative Officer
Conny B. McCormack, Registrar-Recorder/County Clerk
Sachi A. Hamai, Executive Officer
Public Information Office
Audit Committee

COMMENTS AND RECOMMENDATIONS

Background

The Registrar-Recorder/County Clerk (RR/CC or Department) is responsible for registering voters, maintaining voter files, and conducting elections. The Department also records and maintains real estate and other vital records (e.g., birth, death and marriage, etc.), issues marriage licenses and files fictitious business names and other statutory oaths and filings. In fiscal year (FY) 2005-06, the Department's budget was \$109 million, with a budgeted net County cost (NCC) of approximately \$22 million.

Budgetary Control and Adherence to County Budget

Our comparison of the Department's actual financial results indicates that the Department has operated within its budgeted NCC, and has experienced only minor NCC variances. The results are summarized below:

Budget to Actual Financial Results FY 2000-01

	Budget	Actual	Over or (Under)
Expenditures	\$ 68,759,000	\$ 64,890,463	\$ (3,868,537)
Intrafund Transfers	\$ 674,000	\$ 580,292	\$ (93,708)
Revenue	\$ 50,341,000	\$ 46,720,346	\$ (3,620,654)
Net County Cost	\$ 17,744,000	\$ 17,589,825	\$ (154,175)

Budget to Actual Financial Results FY 2001-02

	Budget	Actual	Over or (Under)
Expenditures	\$ 81,077,000	\$ 79,763,962	\$ (1,313,038)
Intrafund Transfers	\$ 615,000	\$ 563,882	\$ (51,118)
Revenue	\$ 56,055,000	\$ 54,905,805	\$ (1,149,195)
Net County Cost	\$ 24,407,000	\$ 24,294,275	\$ (112,725)

Budget to Actual Financial Results FY 2002-03

	Budget	Actual	Over or (Under)
Expenditures	\$ 100,501,000	\$ 99,564,828	\$ (936,172)
Intrafund Transfers	\$ 634,000	\$ 584,947	\$ (49,053)
Revenue	\$ 71,897,000	\$ 71,065,132	\$ (831,868)
Net County Cost	\$ 27,970,000	\$ 27,914,749	\$ (55,251)

**Budget to Actual Financial Results
FY 2003-04**

	Budget	Actual	Over or (Under)
Expenditures	\$ 114,367,000	\$ 104,400,398	\$ (9,966,602)
Intrafund Transfers	\$ 541,000	\$ 483,288	\$ (57,712)
Revenue	\$ 91,571,000	\$ 81,684,585	\$ (9,886,415)
Net County Cost	\$ 22,255,000	\$ 22,232,525	\$ (22,475)

**Budget to Actual Financial Results
FY 2004-05**

	Budget	Actual	Over or (Under)
Expenditures	\$ 123,227,000	\$ 95,542,020	\$ (27,684,980)
Intrafund Transfers	\$ (551,000)	\$ (507,966)	\$ 43,034
Revenue	\$ 100,508,000	\$ 73,222,228	\$ (27,285,772)
Net County Cost	\$ 22,168,000	\$ 21,811,826	\$ (356,174)

The increase in the Department's revenues over the past five fiscal years is primarily due to increased document recording fees, as a result of higher real estate activity (e.g., increased refinancing, etc.). The increased revenue has been partially used to fund increased staffing and employee benefit expenditures to handle the higher workload.

In addition to its budgeted expenditures, intrafund transfers, and revenue, we noted that, since July 2000, the RR/CC has collected approximately \$132 million in special fees, and has accumulated approximately \$60 million in its special fee trust accounts. Details of the special fee collections and trust fund balances are discussed below.

Special Fee Collections and Trust Funds

As noted the RR/CC collects fees for recording and providing copies of various documents (e.g., real estate documents, birth and death records, etc.) for the public. Some of the RR/CC collections are for other agencies. For example, the RR/CC collects transfer tax fees charged by incorporated cities in the County. Collections for these other entities are deposited in trust accounts for each entity, and are sent to the agencies/cities on a monthly basis.

The RR/CC also collects three types of special Recorder fees which are established by State law. State law specifies the amount and purpose of each fee:

- Improvement/Modernization Fee (Government Code 27361) - The RR/CC charges \$1 per page for recording documents to support, maintain, improve and provide for the modernization creation, retention and retrieval of information in each county's system of recording documents.

- **Micrographics Fee** (Government Code 27361.4) - The RR/CC charges \$1 for filing every instrument, paper or notice for record, to defray the cost of converting the county recorder's document storage system to micrographics/images.
- **Vitals and Health Statistics Fee** – (Health and Safety Code 103625) The RR/CC charges an extra \$3 for certified copies of Vital Records. \$1.65 is sent to the State, and \$1.45 is retained by the RR/CC for modernization of vital record operations, including improvement, automation, and technical support of vital record systems and improvement in the collection and analysis of birth and death certificate information.

The RR/CC deposits each of its special fee collections into a designated trust fund, one for each special fee. When special fee collections are used for RR/CC expenditures, the RR/CC reimburses the County General Fund by transferring the amount used into the RR/CC's revenue accounts. The RR/CC accumulates unexpended collections in its trust funds. The following chart shows the Department's special fee collections, transfers to revenue and trust fund balances.

MODERNIZATION, MICROGRAPHICS AND VITALS TRUST FUNDS
(Rounded)

Fiscal Year	Total Collections	Transfer To Revenue	Unspent Funds	Trust Account Balance
FY 1999-00				\$ 14,960,000
FY 2000-01	\$ 11,620,000	\$ 9,180,000	\$ 2,440,000	\$ 17,400,000
FY 2001-02	\$ 17,920,000	\$ 2,930,000	\$ 14,990,000	\$ 32,390,000
FY 2002-03	\$ 25,710,000	\$ 9,290,000	\$ 16,420,000	\$ 48,810,000
FY 2003-04	\$ 27,710,000	\$ 14,150,000	\$ 13,560,000	\$ 62,370,000
FY 2004-05	\$ 24,950,000	\$ 13,170,000	\$ 11,780,000	\$ 74,150,000
FY 2005-06 ¹	\$ 24,140,000	\$ 38,651,278	\$(14,511,278)	\$ 59,640,000
Totals	\$ 132,050,000	\$ 87,371,278		

1 – FY 2005-06 data is estimated.

As indicated, from July 1, 2000 to June 30, 2006, the RR/CC collected \$132 million in special fees, and only transferred \$87 million to revenue to reimburse the General Fund for Departmental expenditures and has accumulated approximately \$60 million in special fees in its trust accounts. We noted that the Department has not developed long-term spending plans for the accumulated special fee funds.

RR/CC management indicated that they use the special fee collections from the trust funds to pay for unanticipated expenses, and as a safeguard against possible future fluctuations in the Department's budget. Specifically, RR/CC management told us they have used special document recording fees from the trust funds to pay for allowable Recorder expenditures, so that the Department can absorb the cost of unanticipated special elections, without a budget adjustment. For example, RR/CC management told

AUDITOR-CONTROLLER
COUNTY OF LOS ANGELES

us they absorbed the costs of the unanticipated 2006 statewide special election without a general fund budget appropriation, through budget savings created by using special document recording fees to pay for allowable Recorder expenditures.

The RR/CC's practice of accumulating special collections in trust is not consistent with County fiscal policy, which requires collections to be transferred to revenue when they are earned, and when the nature of the funds is identified. In addition, the practice of using special collections to absorb costs associated with unbudgeted, mandated services makes it difficult to monitor the Department's true budget status, and/or predict future budgetary requirements. For example, if the RR/CC had significant amounts of special fee-related expenditures, for which they could have used special fee collections, the Department would have significantly reduced its NCC for each of the fiscal years we reviewed.

State governmental accounting guidelines state that collections from specific sources, which can only be used for specific purposes, should be accounted using a Special Revenue Fund. Based on the authority for, and the authorized use of, the RR/CC's Modernization, Micrographics, and Vitals special fees, the RR/CC should account for the collections using three Special Revenue Funds. This change will require the Department to:

- Establish three separate funds Special Revenue Funds for the RR/CC's Modernization/Improvement, Micrographics and Vitals and Health Statistics special fee collections funds.
- Include each Fund's revenues, expenditures, and balances in the County's annual budget.
- Develop annual spending plans for budgeted revenues and expenditures.

RR/CC management should also develop comprehensive, long-term spending plans for their accumulated special fee funds. In addition, the use of special fees that are restricted for Recorder purposes, to indirectly finance unanticipated mandated expenditures, such as special elections, should be more clearly disclosed in the RR/CC's budget. To strengthen this process, the Department should work with the CAO and Auditor-Controller to develop procedures to ensure that special election-related revenue and expenditures are fully disclosed to the Board.

Recommendations

RR/CC management:

- 1. Account for Modernization, Micrographics and Vitals special fee collections using Special Revenue Funds.**

2. Develop comprehensive, long-term spending plans for the Department's accumulated special fee funds.
3. Work with the CAO and Auditor-Controller to develop procedures to ensure that special election-related revenue and expenditures are fully disclosed to the Board.



COUNTY OF LOS ANGELES
REGISTRAR-RECORDER/COUNTY CLERK
12400 IMPERIAL HWY. – P.O. BOX 1024, NORWALK, CALIFORNIA 90651-1024

CONNY B. McCormack
Registrar-Recorder/County Clerk

September 14, 2006

To: J. Tyler McCauley
Auditor-Controller

From: Conny B. McCormack *CBC*
Registrar-Recorder/County Clerk

RESPONSE TO AUDITOR-CONTROLLER'S BUDGET AND TRUST FUND REVIEW

Our Department believes it is important to emphasize that the focus of the findings of the Budget and Trust Fund Review recently completed by your office is upon recommending a change in methodology regarding how to prepare the Department's annual budget and does not find a violation of County regulations as a result of our current methodology in this regard.

The Chief Administrative Office (CAO) is very familiar with how the Department's respective trust funds are currently collected, expended and reported by our Department. This topic is always thoroughly reviewed in our annual budget meetings with the CAO and also with his staff at other times throughout the year. Although we understand the concept behind the recommendations your office is now making in this regard, we believe there is great value to the County of continuing our current process. The rationale is that the current methodology provides more flexibility and the ability to take immediate action to deliver and pay for costly, mandated public services due to the frequency of unplanned special elections and also County-sponsored ballot propositions. Recent examples of the benefits of the current methodology entail absorption by our Department of millions of dollars in unexpected expenses within our allocated annual net County cost (NCC):

- November 8, 2005 Special Statewide Election
--Department absorbed cost of \$9,068,000
- September 13, 2005 Special Election: 53rd State Assembly
--Department absorbed cost of \$581,000
- October 7, 2003 Special Statewide Recall Election
--Department absorbed cost of \$11,288,000
- November 26, 2002 General Election, Two County Measures:
A) Earthquake/Fire Safety Bond, and B) Trauma/Emergency Services Tax
--Department absorbed costs for both measures of \$2,558,000

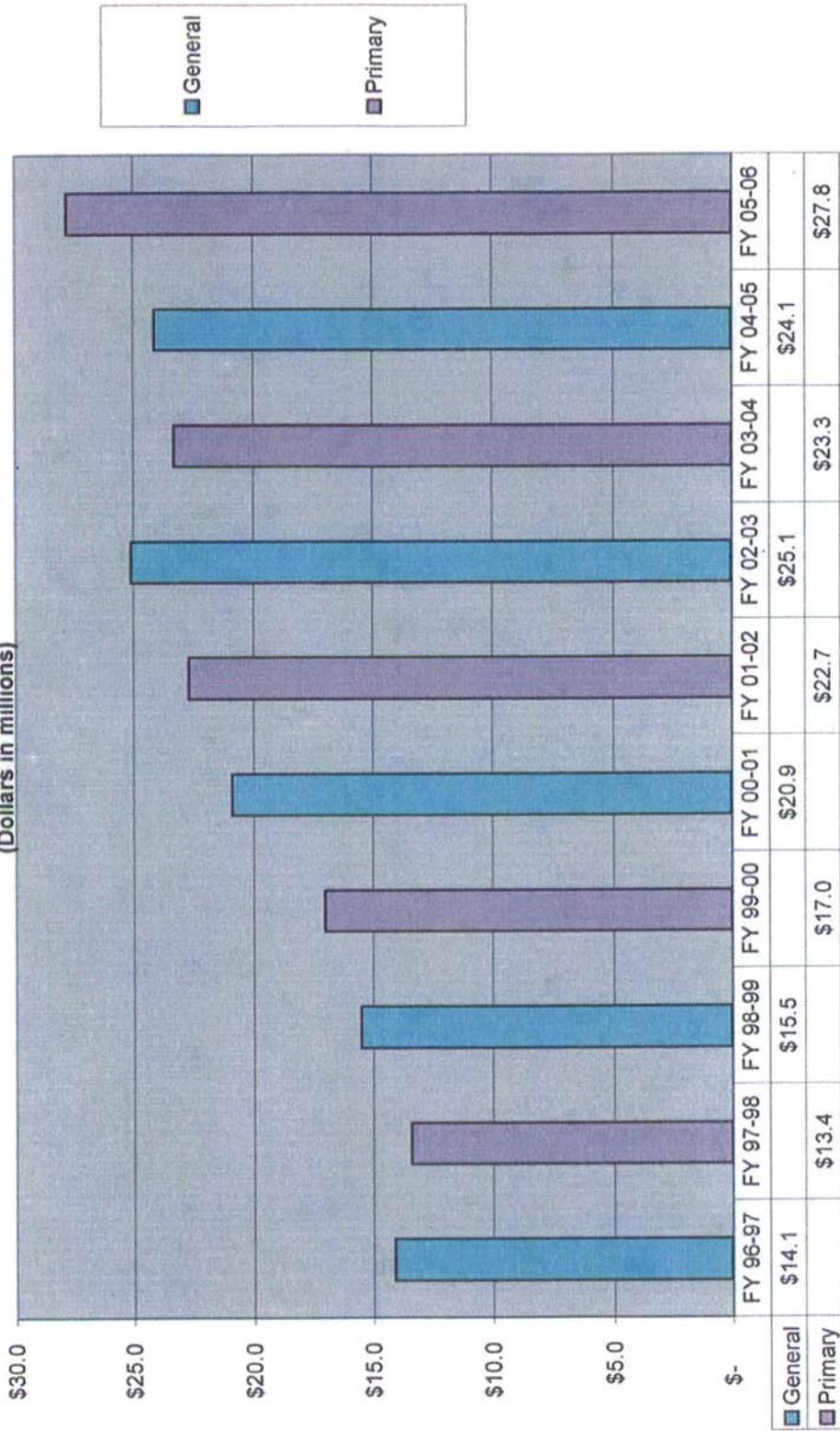
Additionally, the costs of conducting major, pre-scheduled elections in Los Angeles County are increasing at an alarming pace. Attached are two election cost comparison charts that reveal, from FY 1996-97 through FY 2005-06, huge cost increases. For example, in FY 1997-98 it cost \$13.4 million to conduct the statewide primary election compared with the recent June 2006 primary election which cost \$27.8 million, a 107% increase over this time period. Unknown additional expenses are anticipated in conjunction with implementing the County's new voting system for the first time for the upcoming November 2006 General Election to comply with recently enacted federal and state election laws. The current budgeting methodology provides the ability to manage the financial demands of the unpredictable escalation of election costs, for both planned and unscheduled elections, while remaining within the Department's allocated NCC. This methodology also allows the County's general fund to accrue significant interest revenue on the unspent resources remaining in the trust fund accounts. Without the flexibility of utilizing trust funds to adjust the Department's budget, unscheduled election costs, including in excess of \$1 million for each Board-sponsored County ballot measure (as noted above), would become an issue on the Board's agenda.

We appreciate the opportunity to present the benefits of the current budget methodology and look forward to further dialogue regarding this matter.

Attachments

**REGISTRAR-RECORDER/COUNTY CLERK
ELECTION COST COMPARISON
F.Y. 1996-97 - 2005-06**

(Dollars in millions)



REGISTRAR-RECORDER/COUNTY CLERK
ELECTION COST COMPARISON
 FISCAL YEARS 1996-97 through 2005-06

Description	FY 96-97 General Actual	FY 97-98 Primary Actual	FY 98-99 General Actual	FY 99-00 Primary Actual	FY 00-01 General Actual	FY 01-02 Primary Actual	FY 02-03 General Actual	FY 03-04 Primary Actual	FY 04-05 General Actual	FY 05-06 Primary Actual
Primary	\$ 14.1	\$ 13.4	\$ 15.5	\$ 17.0	\$ 20.9	\$ 22.7	\$ 25.1	\$ 23.3	\$ 24.1	\$ 27.8
General	\$ 14.1	\$ 13.4	\$ 15.5	\$ 17.0	\$ 20.9	\$ 22.7	\$ 25.1	\$ 23.3	\$ 24.1	\$ 27.8
Total Election Costs	\$ 14.1	\$ 13.4	\$ 15.5	\$ 17.0	\$ 20.9	\$ 22.7	\$ 25.1	\$ 23.3	\$ 24.1	\$ 27.8
General % change 96-97 to 98-99			9.93%							
Primary % change 97-98 to 99-00				26.87%						
General % change 98-99 to 00-01					34.84%					
Primary % change 99-00 to 01-02						33.53%				
General % change 00-01 to 02-03							20.10%			
Primary % change 01-02 to 03-04								2.64%		
General % change 02-03 to 04-05									-4.0%	
Primary % change 03-04 to 05-06										19.31%